

As Professor Rothbard has pointed out, *subtracting* government spending from GNP, and then adjusting for taxation, gives us a much better idea of the real economy. His “Private Product Remaining (to Producers)” or PPR does exactly that.

Working from Professor Rothbard’s thesis, Professor Robert Batemarco of Manhattan College computed the PPR from 1960 to 1985 for an article in the first issue of the Institute’s *Review of Austrian Economics*.

The gap shown on the chart between GNP and PPR represents the horrendous growth of government. And the gap is huge and growing, despite promises to get Washington off our backs.

The growth in GNP is almost all attributable to increased government spending, which represents capital consumption, not progress. As shown by the PPR the economy has barely moved, thanks to the government’s incredible taxation, deficits, welfare, borrowing, subsidies, and controls.

Real growth in the U.S. registered a mere 1.3% last year. On the average, the GNP figure is about 52% higher than real growth. And the more government grows, the higher that percentage.

Always be wary of government statistics. They are usually designed to mislead, and GNP is part of that game.

Racial Discrimination vs. the Free Market

Mark D. Hughes

Not long ago I saw a poster at George Mason University advertising a talk on “The Development of Racism Under Capitalism.” Sponsored by SCAR (the Student Coalition Against Racism), the implied position was wrong; it is capitalism that hinders racism.

“The term ‘discrimination’ has acquired an unambiguously negative meaning,” writes Dr. Walter Block. “It conjures up the image of racial and sexual prejudice. Strictly speaking, however, the term is neutral.”

As human beings, we face an unavoidable scarcity of time and resources: that is, we cannot have everything we want or need whenever we want or need it. To cope with this scarcity, we ration our time, skill, knowledge, and wealth.

This process must involve discrimination. For example, if I choose to read Mises’s *Human Action* rather than the collected poetry of Keats, I am discriminating against Keats. And my choosing to read at all means I am discriminating against every other use of my time.

Different ways of rationing resources have emerged over the centuries. The barbarism of ancient times involved grabbing what you could, when you could, and however you could. In the barbarism of modern times, these same activities are carried out by governments.

But the best and only peaceful method for rationing scarce resources is the price system. Respecting private property and individual rights, the price system puts the power of choice into the hands of the person whose scarce resources are to be rationed.

If the owner of a resource wishes to exchange it with others, and he sets the price at zero, then people who discriminate in favor of it, by choosing to consume it, will want more of it than the owner wishes to exchange. The owner will therefore ration his resource by giving it a positive price. As the price of the resource rises, more and more people will choose to discriminate against it in favor of a less costly resource.

Their desire for the resource has not changed, but the cost of discriminating in favor of it has increased. For example, I will have the same desire for a European sports car regardless of its price, but its price makes discriminating in its favor too costly for me.

The more scarce and desirable a resource, the higher its price. But at some point, the owner will arrive at a price where the total discrimination in favor of it is just equal to the quantity he is willing to exchange.

Prices and the right of ownership give individuals the ability to increase or decrease the level of discrimination against their resources. This is the mechanism that makes free market competition work. And only this competition gives individuals control over their own scarce resources.

A consumer who refuses to purchase resources from a person (i.e. discriminates against that person) solely because of the color of that person's skin is discriminating. The act of discrimination itself is neither good nor bad, but the underlying values can be considered unethical.

Does the person who suffers because of racism have any recourse? He could try to use government power to force an exchange by coercion. But there is a better way: he can use the price system.

If I feel someone is discriminating against me for unethical reasons, then I can make his choice costly by lowering the price I charge. His discrimination then becomes more costly. A person discriminating against me can only continue to do so if he is willing to pay a higher relative price for his choice. I can't change his values, but I can make them more costly to hold.

This very process occurs every day. When a member of a minority group opens a new grocery store in an unfriendly neighborhood, say a Korean in a black area of Washington, D.C., he is likely to be discriminated against. Instead of demanding that the government force shoppers to buy from his store, he chooses the peaceful method: he reduces his prices. This increases the cost to consumers of discriminating against him, because they are now paying a premium to shop somewhere else. As a result, they begin to patronize his store. Racists may still be racists, but they no longer discriminate unethically.

But if the government had set the grocer's prices at the same level as other stores not owned by minorities, there would be no cost to consumers for racially discriminating against him. They would simply continue shopping at Safeway.

Henry Hazlitt wrote in his unforgettable book *Economics in One Lesson*:

A wage is, in fact, a price. It is unfortunate for clarity of economic thinking that the price of labor's services (labor's scarce resource) should have received an entirely different name from other prices. This has prevented most people from recognizing that the same principles govern both.

Like the consumer of any resource, an employer will pay a wage no higher than the production the worker can generate. If the worker accepts a job paying less than his production, other employers will recognize they can profit by offering a higher wage. Eventually the worker receives a wage equal to the value he contributes.

If the government imposes a minimum wage, anyone who cannot add more than the minimum to the employer's business will not be hired. No employer can pay out more than his business produces for very long. The government's minimum wage law discriminates against the less productive members of society.

According to Professor Walter E. Williams of George Mason University, author of *The State Against Blacks*:

As late as 1948, black youth labor market participation was higher than that of white youths and their unemployment rate was less. But with each and every increase in the level and coverage of the minimum wage law, that picture was changed. Now the very opposite is the case.

When the state imposes minimum wage laws, it reduces the cost for employers to discriminate racially. It also takes

away a minority person's best weapon: the right to lower prices and make racially based discrimination costly.

Suppose there are two young women, one white and one black, both equally qualified. They are the only two people who have applied for a hostess's job in a restaurant owned by a white racist. The employer is willing to pay up to \$5.00 per hour. The white woman has been offered a job she likes better at another business at \$4.50 an hour, and will accept the restaurant job only if she can get \$5.00 per hour.

The black woman knows the boss is a racist. She realizes that her only hope of getting the job is to ask for less than \$5.00 per hour. And the less she asks for, the greater her chances of getting the job. If she lowers her price to \$4.50, the employer must now pay 50 cents per hour to discriminate racially against her. And at some wage it will be too costly for him to continue his racial discrimination, and he will hire the black woman.

The story is different when the state imposes a minimum wage of \$5.00 per hour. Far from aiding the black woman, it forbids her from competing with her white rival. The government has in effect made it illegal for the black woman to work at that restaurant.

This brings us back to "The Development of Racism Under Capitalism." SCAR and groups like it demand that the government intervene in the free market to eliminate racial discrimination. But the free market tends to reduce unethical discrimination; it is the state through its fettering of free enterprise that promotes racism.